



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240



SEP 11 2008

MEMORANDUM

To: Secretary

Through: C. Stephen Allred
Assistant Secretary for Land and Minerals Management

From: Randall B. Luthi
Director, Minerals Management Service

Subject: Response to the Office of the Inspector General Investigations of Minerals Management Service Employees

I have received a copy of the Office of Inspector General's Investigations of Minerals Management Service employees. I am also in receipt of the OIG's request that Assistant Secretary C. Stephen Allred review the actions of certain MMS employees and report any administrative actions taken as a result of the investigative reports.

We have been awaiting the reports' release so we can take appropriate disciplinary action based upon the reports. I am taking appropriate immediate administrative action in accordance with applicable Federal requirements for competitive career civil service employees.

Four of the employees named in the OIG reports have retired, and upon initiation of this investigation, several were transferred from the RIK program. The leadership of the MMS has changed since the time of these activities. The new leadership team fully understands and supports the ethical standards expected of Federal employees, no matter their position. Should I receive any report or hint of impropriety, this new team knows that I will take disciplinary action.

I concur with your suggestion that we examine implementation of a random drug testing program.

Consistent with your emphasis on ethical behavior, we have strengthened our comprehensive ethics training for all employees, completed additional RIK-specific ethics training for RIK personnel, and reinforced existing policies and procedures so employees fully understand their ethical responsibilities when dealing with private industry.

As a former career employee, I am deeply troubled by the actions discussed in the IG reports. Such actions undermine the public trust and confidence the American people have vested in our Federal employees. Since appointment to my current position in July 2007, I have been very impressed by the quality and dedication of the MMS employees. It is unfair and unfortunate that



the actions of a few employees have overshadowed the contributions of MMS's full complement of 1,700.

In addition, since 2006 the MMS has taken the following actions:

- Appointed a new Associate Director for the agency's Minerals Revenue Management Program from outside MRM and a new RIK Program manager.
- Strengthened internal controls, including more and better documentation of policies and procedures.
- Implemented specific procedures for bid acceptance during sales.
- Enhanced documentation requirements.
- Reinforced coordination with Contracting Office and our Compliance organization.
- Reformed our procurement of transportation and processing contracts for RIK, including current contract with ASI for designing better contracting processes.
- Funded an attorney in the Solicitor's office in Denver who is dedicated to providing legal advice to RIK program.
- Invited representatives from the OIG, Government Accountability Office, and Assistant Secretary for Land and Minerals Management to participate in actual RIK sales to observe and make recommendations for improvement. We have incorporated those recommendations into our RIK sales process.

Cumulatively, for FY 2005 through FY 2007, RIK estimated net return has been more than \$130 million. In FY 2007, sales of royalty oil and gas through MMS's RIK program are estimated to have increased net return to the government by nearly \$63.2 million above what would have been received if the government had taken the oil and gas royalties in value, or as cash payments.

In addition, you requested that the Royalty Policy Committee form a subcommittee to review the overall royalty program and provide recommendations for program improvements. This subcommittee was chaired by former Senators Bob Kerry (D-NE) and Jake Garn (R-UT). The subcommittee strongly supported the RIK program and the administration of the royalty program by MMS. They also provided recommendations to strengthen and improve the royalty collection process. To date, we have implemented 22 of the recommendations and will implement 28 additional recommendations by February 2009. We have a plan to review and implement the remaining recommendations.

We will continue to explore ways of improving the RIK program. In light of the Inspector General's recommendations, we will take appropriate administrative action, propose additional ethics assurance measures, revise the organizational structure to provide additional oversight, and develop a clear strict code of conduct.